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SIPDIS

STATE FOR AF/W DANA BANKS
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LONDON FOR PETER LORD

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SUBJECT: YAYI ANNOUNCES 2008-2009 COTTON PRICES

REF: COTONOU 501

11. SUMMARY: On May 25 2008, President Yayi personally announced the prices of raw cotton and inputs for the 2008-2009 campaign. To alleviate the negative impact of the surge in the price of oil on the cost of fertilizers, the GOB decided to subsidize fertilizers for the same period. This year, raw cotton prices are the highest in the sub-region and are expected to boost the cotton output. The 2007-2008 cotton production increased by twelve percent though it did not meet the GOB targeted volume of 400,000 tons for 2007-2008, according to Benin's Cotton Stakeholders Association (AIC). END SUMMARY

12. President Yayi announced that the producers' prices for raw cotton for the 2008-2009 campaign would be set at 210 and 160 Francs CFA (USD 0.50 and 0.38) per kilogram respectively for the first and second choice. This year, prices increased by 20 percent compared to those of the 2007-2008 campaign which were USD 0.35 and 0.25 for the same types of raw cotton. On the other hand, the price of fertilizers did not change; except for the effects of the depreciation of the dollar. The price of pesticide increased to 4,500 FCFA (USD 10.80) per liter from the price of 4,100 FCFA (USD 8.54) last year.

13. Benin cotton prices for the 2008-2009 campaign are higher than the prices set in Mali and Burkina Faso, members of the C-4 countries. In Mali, first and second choice are set at 200 FCFA (USD 0.48) and 155 FCFA (USD 0.37) respectively; And in Burkina Faso is the prices are 165 FCFA (USD 0.40) and 140 FCFA (USD 0.33). Kpanran Bani, a cotton grower, underscores, however, that Benin's new prices might deter his colleagues who often smuggle raw cotton to Nigeria to achieve higher prices.

14. To permit producers to afford the higher cost of fertilizers, the GOB decided to subsidize fertilizer prices by 111.34 FCFA (USD 0.27) per kilogram, to bring the price down to 235 FCFA (USD 0.54) instead of the unsubsidized market rate of 346.34 FCFA (USD 0.83). This subsidy will cost the GOB 6.9 billion FCFA (USD 166 million).

15. Barthelemy Gagnon, Permanent Secretary of AIC, explained that the GOB's decision to subsidize the price of fertilizers came as a response to producers' requests for assistance. The GOB reasoned that, without subsidies, the cotton field acreage would decrease, exacerbating the food crisis. According to Gagnon, at a higher, unsubsidized price, farmers would divert valuable fertilizer intended for the cotton production to produce more food crops to generate quick income.

16. Cotton ginners expressed their appreciation for the GOB's measures. Imorou Tikande, Chief Engineer and Director of a ginning factory said that the set prices would benefit all cotton stakeholders. He added that his factory would operate at capacity

because there would be more raw cotton to gin. According to Tikande, farmers who gave up the production of cotton last year were eager to resume cotton growing activities as the new prices are very attractive.

¶7. The AIC report indicated that the 2007-2008 cotton output has increased by 12 percent from 240,618 metric tons in 2007 to 268,656 metric tons in 2008 even though the growers did not meet the target of 400,000 metric tons President Yayi set as a goal for the 2007-2008. According to the report, the objective for the next campaign is to increase the cotton production from 268,656 to 384,600 tons.

¶8. The Embassy would like to thank the U.S. Embassies in Ouagadougou and Bamako for providing the cotton prices in Mali and Burkina Faso for the 2008-2009 campaign.

¶9. COMMENT: Cotton production accounts for 13 percent of Benin's GDP and 80 percent of its export revenues. The GOB's subsidy of the price of fertilizers and the increase in the price paid to cotton farmers aims at encouraging farmers to augment the cotton output. Higher demand for food from neighboring landlocked countries and Nigeria might incite cotton growers to use more fertilizer for cereal production to the detriment of cotton if cotton prices are not attractive. END OF COMMENT

BOUSTANI